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OSFI BSIF

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FROM THE OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS CANADA (OSFI)

Mark White appointed Assistant Superintendent, Regulation Sector

Superintendent Julie Dickson has announced the appointment of Mark White as Assistant Superintendent, Regulation Sector, effective July 27, 2009.

OSFI's Regulation Sector includes such areas as Legislation and Approvals, Capital, Accounting and Research, Actuarial, Private Pension Plans, Legal Services, and the International Advisory Group.

"I am pleased to welcome Mark to OSFI's Executive Committee and know that his industry experience will be of great value to the Office in continuing to deliver on its mandate," said Ms. Dickson. "Mark is replacing Bob Hanna, who is retiring after more than 30 years of service to OSFI," adds Ms. Dickson. "Happily, Bob has agreed to stay on in an advisory capacity. We are grateful to him for his years of service and willingness to continue to be of help."

In addition to the Superintendent and Mr. White, the other two members of OSFI's executive team are Ted Price, Assistant Superintendent, Supervision Sector, and Gary Walker, Assistant Superintendent, Corporate Services Sector.

For a copy of Mr. White's biography, visit the OSFI web site at www.osfi-bsif.gc.ca

Mark White, Assistant Superintendent, Regulation Sector

Superintendent speaks about Systemic Risk and the Future of Regulation

The following is a brief summary of May 12 remarks at the Asian Banker Summit 2009, in Beijing, China

There is a growing consensus that a key element in improving safeguards against financial instability is to strengthen the macroprudential orientation of regulation and supervision of financial institutions.

One suggestion has been to calibrate policy tools so as to encourage the build-up of capital buffers in good times, which can then be drawn down as strains materialize. The thinking is that this would help banks absorb shocks, and might also restrain the growth of risk-taking in good times.

These proposals would seek to tie a portion of a bank's capital requirements to certain macroeconomic indicators (like credit growth and asset prices in the economy). Some are now looking at whether regulators should focus more on bank-specific indicators, like the risk premiums a particular bank is charging, or growth in the earnings of individual banks.

There are inherent problems to such an approach. Linking bank capital to macroeconomic indicators is extremely difficult because no one can reliably predict business cycles. Part of the challenge is on the upside (where economic forecasters often get it wrong), and part is on the downside (where economic forecasters often get it wrong). This is not because forecasters are not smart; it is because no one can accurately predict the future.

To view the complete speech, visit the OSFI web site at: www.osfi-bsif.gc.ca

OSFI & Office of Insurance Commission Thailand sign Memorandum of Understanding

OSFI and the Office of Insurance Commission Thailand (OIC) have signed a formalized information sharing and cooperation agreement in view of promoting the safe and sound functioning of insurance companies with cross-border establishments in their respective countries.

The agreement signed on July 7, 2009, applies to a branch, subsidiary or any other entity of an insurer supervised by one authority which gives rise to the need for consolidated or group-wide supervision by the other authority.

Included in the Memorandum of Understanding are agreements on the sharing of information, the protection of information and cooperation relative to on-site inspections and financial crime monitoring.

OIC Secretary General Chantra Purnariksha and OSFI Superintendent Julie Dickson

Office of the Chief Actuary publishes CPP Mortality Study

As Canadians are living longer, more are expected to receive pension benefits from the Canada Pension Plan (CPP) for a longer period of time, according to a study released by the Chief Actuary of Canada.

The CPP Mortality Study produced by the Office of the Chief Actuary finds that by 2050, male beneficiaries are expected to receive their retirement benefit for an additional 3.3 years and female beneficiaries for an additional 2.3 years, compared to the same study in 2005. The increase in life expectancy is anticipated to grow to a total of four additional years for both genders by 2075.

The study's results also underscore a correlation between the level of CPP income and the beneficiary's life expectancy; the higher the CPP retirement pension, the higher the beneficiary's life expectancy.

Mortality Study at-a-Glance

- An average 23-year life expectancy at age 65 anticipated by 2050
- Higher pension benefits correlate to higher life expectancy

At age 60, male CPP beneficiaries with a maximum pension tend to live three years longer than male beneficiaries with a lower pension. A two-year gain was observed for female beneficiaries.

To view the complete study, visit the OSFI web site at: www.osfi-bsif.gc.ca

OSFI issues clarifications on 25 Percent Limit on Non-approved Reinsurance

With the implementation of the 2007 amendments to Part XIII of the *Insurance Companies Act* (Part XIII), effective January 1, 2010, OSFI recognizes that certain federally regulated insurance companies and fraternal benefit societies, including foreign companies in respect of their insurance business in Canada (collectively, "cedants"), may inadvertently become non-compliant with the 25 percent limit on non-approved (or "unregistered") reinsurance under Section 6 of the Reinsurance (Canadian Companies) Regulations and the Reinsurance (Foreign Companies) Regulations ("the 25 percent limit"). In order to facilitate the Part XIII transition, OSFI will implement the measures noted below.

Notwithstanding the effect of Part XIII, OSFI will exercise its discretion to take the following into consideration in its administration of the 25 percent limit.

OSFI will consider all premiums paid or payable by the cedant to "registered" reinsurers prior to or on December 31, 2009, to continue to be considered "registered" reinsurance for the sole purpose of calculating the 25 percent limit beyond that date.

In addition, in their annual calculation of the percentage of "unregistered" reinsurance, as applicable after December 31, 2009, cedants will be permitted to continue excluding the premiums paid or payable prior to or on December 31, 2009, that were up to that date excluded from this calculation.

However, any cedant that benefits from these discretionary relief measures will thereafter be expected by OSFI to refrain from ceding additional risks on an "unregistered" basis under the Reinsurance (Canadian Companies) Regulations and the Reinsurance (Foreign Companies) Regulations as they apply on January 1, 2010, until such time as their ratio of unregistered reinsurance (calculated without taking this relief measure into consideration) falls below the 25 percent threshold.

To view the complete document for the above item, visit the OSFI web site at: www.osfi-bsif.gc.ca

Key Principles for the Future Direction of the Canadian Regulatory Capital Framework for Property & Casualty (P&C) Insurance

Canada has been among the leaders in the development of risk-based capital adequacy tests for insurance companies. There is a great deal of interest both in Canada and abroad in developing new capital requirements to better measure risk and thereby facilitate improved risk management procedures within institutions.

OSFI and the Canadian P&C insurance industry are working together through the Minimum Capital Test (MCT) Advisory Committee to develop more advanced risk measurement techniques (internal models) for incorporation into the MCT / Branch Adequacy of Assets Test (BAAT). These techniques will include the development of risk management and disclosure criteria for risk-sensitive methodologies for use by companies that have the commitment and resources to implement them.

The MCT Advisory Committee plans to develop and recommend to OSFI and l'Autorité des marchés financiers (AMF), changes to the current capital framework in stages. Its first priority is to develop an approach to measure the insurance risk.

As the MCT Advisory Committee completes its work, OSFI will follow its normal public consultation and approval process before any changes are made to the framework. An important collateral benefit of this work will be stronger conceptual and analytical bases. This will ensure that the current approach based on factors and formulas remains appropriately risk-related for the majority of companies that will not be using their own models.

The MCT Advisory Committee has developed and proposed a set of high-level key principles to guide the development of a new capital framework. The key principles are available on OSFI's web site. Comments can be submitted until August 31, 2009.

For comments or questions, please contact Bernard Dupont at 613-990-7797 or bernard.dupont@osfi-bsif.gc.ca, or Judith Roberge at 613-990-4412 or judith.roberge@osfi-bsif.gc.ca.

To view the complete document, visit the OSFI web site at: www.osfi-bsif.gc.ca

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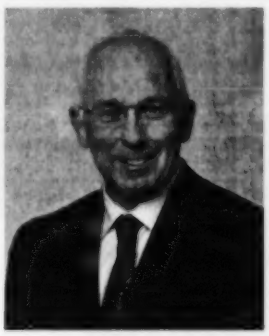
OSFI welcomes Paul Marchand as Senior Director, Supervision Support Group



Paul Marchand, Senior Director, Supervision Support Group

On May 29, 2009, Paul Marchand joined OSFI as Senior Director of the Supervision Support Group (SSG) within the Supervision Sector, in Toronto.

In this role, Paul is responsible for providing insightful and forward looking credit, market and operational risk expertise to the organization including anti money laundering and compliance. The SSG provides support in the form of specialized technical knowledge to the Supervision Sector.

Paul is an industry expert on market and operational risk. He has an extensive background in enterprise-wide risk management, including market, credit, treasury trading and liquidity and funding risk.

Paul was most recently the Chief Risk Officer at CIBC Mellon. Prior to that, he was the Vice-President, Operational Risk Policy, at BMO. He also served on the Board of Multinet International Bank which was a predecessor company to CLS and International Clearing Systems Inc., a subsidiary of Options Clearing Corp located in Chicago

Paul received his Bachelor of Commerce from McGill University.

OSFI Private Pension Plans Division publishes first edition of *InfoPensions*

OSFI's Private Pension Plans Division published in May, the first edition of ***InfoPensions*** - its electronic newsletter previously known as *PBSA Update*. *InfoPensions* includes announcements and reminders on issues relevant to federally regulated private pension plans as well as descriptions of how OSFI applies selected provisions of the *Pension Benefits Standards Act, 1985* (PBSA), its regulations and directives, and other OSFI guidance.

To receive this newsletter by e-mail, visit the subscription link on the OSFI web site at: www.osfi-bsif.gc.ca

OSFI: Active on the International Front

OSFI is actively engaged in international policy discussions and policy development through its membership in the Basel Committee on Banking Supervision (BCBS) and its participation in the Financial Action Task Force (FATF).

The BCBS provides a forum for regular cooperation on banking supervisory matters and seeks to promote and strengthen supervisory and risk management practices globally. These efforts are also in support of the initiatives and recommendations of the Financial Stability Board (FSB) and the G20 leaders.

The BCBS has four main sub-committees that support its work – the Policy Development Group (PDG), the Accounting Task Force (ATF), the Standards Implementation Group (SIG) and the International Liaison Group (ILG).

OSFI has been involved in several key initiatives undertaken by the BCBS and its sub-committees for ongoing liaison work to address the fundamental weaknesses revealed by the financial market crisis related to the regulation, supervision and risk management of internationally active banks.

In particular, OSFI is a member of the PDG, which has focussed its efforts on several key issues, including:

- The enhancement of the risk coverage of Basel II (including potential changes to capital requirements to cover trading book exposures, complex and illiquid credit products, complex securitisations in the banking book as well as off-balance sheet vehicles, counterparty credit risk exposures under the three pillars of the Basel II framework, market risk framework review, and external ratings review)
- The strengthening over time of the level, quality, consistency and transparency of regulatory capital
- Measures to mitigate any excessive cyclicality of Basel II

OSFI is also a member of the BCBS's Accounting Task Force and each of its subgroups. The ATF ensures that international accounting and auditing standards and practices promote sound risk management at financial institutions, support market discipline through transparency, and reinforce the safety and soundness of the banking system. Currently, the ATF is very focused on working with the International Accounting Standards Board (IASB) on their projects on fair value and provisioning (IAS 39 replacement) and consolidation and derecognition which are a direct response to recommendations from the FSB and G20.

What's New Online (www.osfi-bsif.gc.ca)

Ruling: Insurance Promotion on a Bank's Website

OSFI has ruled that, for the purpose of the Insurance Business (Banks and Bank Holding Companies) Regulations, a bank website is not a bank branch.

Solvency Funding Relief Regulations and actuarial reports

The Solvency Funding Relief Regulations, 2009 were pre-published in Part I of the *Canada Gazette* on April 4, 2009. Pension plan sponsors may be waiting for the final version of these regulations before deciding on funding relief; however, many federally regulated pension plans are required to file an actuarial report by June 30, 2009. In light of this deadline, the Superintendent of Financial Institutions has directed a later filing date.

IFRS - Progress Reports Feedback

OSFI has received initial IFRS progress reports from most federally regulated financial institutions. A summary of key findings is available on the OSFI web site. It also provides additional clarity for future progress reports.

To view complete documents for the above items, visit the OSFI web site at: www.osfi-bsif.gc.ca

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The OSFI *Pillar*

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